



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

BUREAU OF STATE LOTTERY

DEPARTMENT OF TREASURY

November 2014



Doug A. Ringler, C.P.A., C.I.A.
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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Performance Audit

Bureau of State Lottery

Department of Treasury

Report Number:
271-0450-13

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November 2014

The Bureau of State Lottery's mission is to maximize net revenues to supplement State education programs, to provide fun and entertaining games of chance, and to operate all games and Bureau functions with nothing less than total integrity. The Bureau generates revenue by offering draw games, instant ticket games, and pull tab games to the public through approximately 11,000 licensed lottery retailers. The Bureau generated ticket sales of \$2.5 billion and transferred \$734.3 million to the State's School Aid Fund for fiscal year 2012-13.

Audit Objective			Audit Conclusion
Objective 1: To assess the effectiveness of the Bureau's efforts to ensure the integrity of lottery games and operations.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau did not sufficiently identify and investigate lottery retail owners who repurchased winning lottery tickets, likely at a discount (Finding 1).		X	Agrees
The Bureau did not encrypt lottery winners' confidential data transferred to the Department of Treasury for income tax reporting purposes (Finding 2).		X	Agrees

Audit Objective			Audit Conclusion
Objective 2: To assess the effectiveness of the Bureau's efforts to withhold income taxes, outstanding State liabilities, and support arrearages from lottery winners.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Bureau had not analyzed the impact of lowering the thresholds for withholding State income taxes and outstanding debts from lottery prize winning payouts (Finding 3).		X	Agrees

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Doug A. Ringler, C.P.A., C.I.A.
Auditor General

November 18, 2014

Mr. M. Scott Bowen, Commissioner
Bureau of State Lottery
101 East Hillside
Lansing, Michigan

Dear Mr. Bowen:

This is our report on the performance audit of the Bureau of State Lottery, Department of Treasury.

This report contains our report summary; a description of agency; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; two exhibits, presented as supplemental information; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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Description of Agency

The Bureau of State Lottery was created by Act 239, P.A. 1972 (Sections 432.1 - 432.47 of the *Michigan Compiled Laws*). The Bureau is an autonomous entity within the Department of Treasury and is administered by the Commissioner of State Lottery, who is appointed by the Governor with the advice and consent of the Senate.

The Bureau's mission* is to maximize net revenues to supplement State education programs, to provide fun and entertaining games of chance, and to operate all games and Bureau functions with nothing less than total integrity.

The Bureau's responsibilities, by division, include:

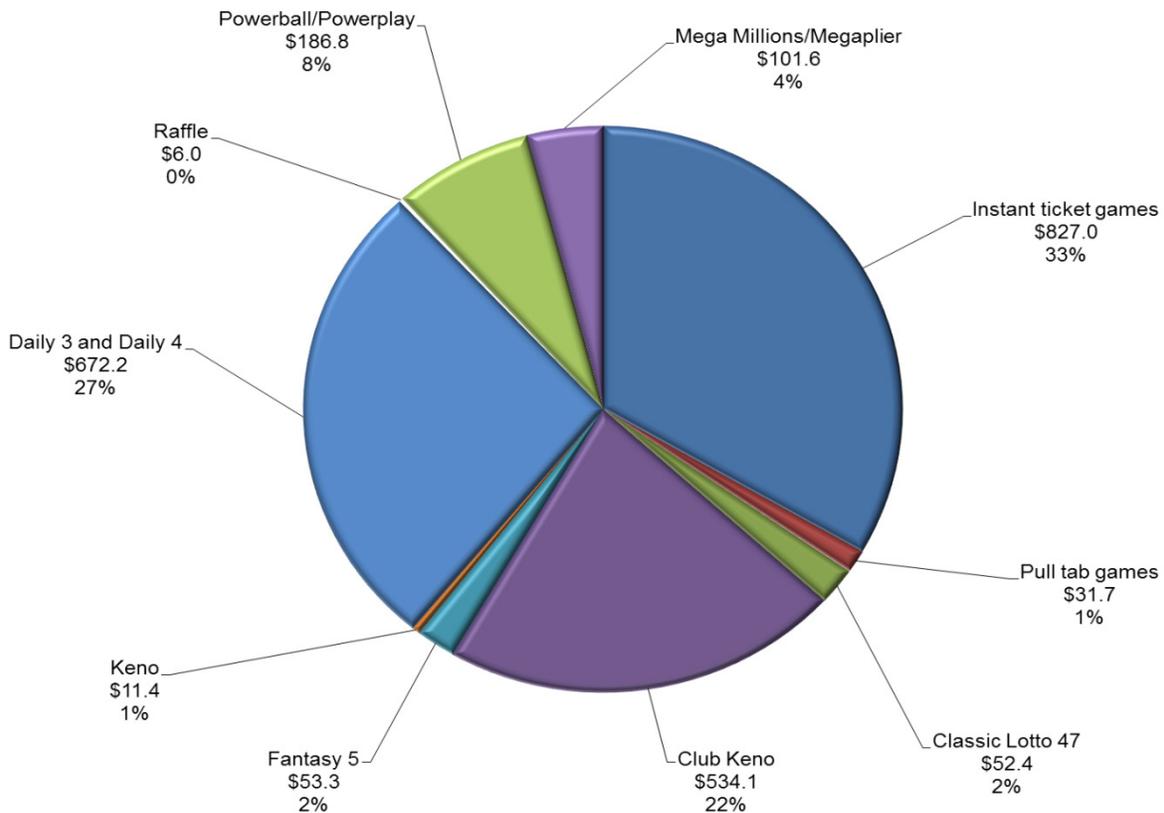
1. Executive Division: Responsible for the overall management and operation of the Bureau; public relations activities; security; and investigations, including criminal history background checks. Also, the Division monitors contract compliance, ensures that lottery* drawings are conducted in a secure and fair manner, develops policies and procedures, and identifies potential inadequacies or weaknesses to prevent fraud and/or abuse in program operations.
2. Administration Division: Responsible for budget development, accounting and financial reporting, procurement, contract management, records management, facility management, warehousing, and telecommunications. The Division is also responsible for operating the lottery central* claim center in Lansing.
3. Marketing Division: Responsible for creating, developing, and promoting lottery games.
4. Sales Division: Responsible for monitoring and managing lottery retailer* sales through six regional offices located in Detroit, Grand Rapids, Lansing, Livonia, Saginaw, and Sterling Heights. The Division is also responsible for performing retailer licensing activities, including issuing licenses, conducting disciplinary hearings, and determining disciplinary actions for licensing violations.

* See glossary at end of report for definition.

5. Planning and Operations Division: Responsible for conducting quality assurance testing and verification of the vendor's lottery game software releases; supporting information technology hardware and software applications; and maintaining information technology standards and documentation.

The Bureau generates revenue by offering draw games*, instant ticket games*, and pull tab games* to the public through approximately 11,000 licensed lottery retailers. Draw games include Mega Millions/Megaplier, Powerball/Powerplay, Classic Lotto 47, Fantasy 5, Daily 3, Daily 4, Keno, Raffle, and Club Keno. The following chart shows the ticket sales revenue of the draw games, instant ticket games, and pull tab games for fiscal year 2012-13:

Fiscal Year 2012-13 Ticket Sales Revenue (in millions)

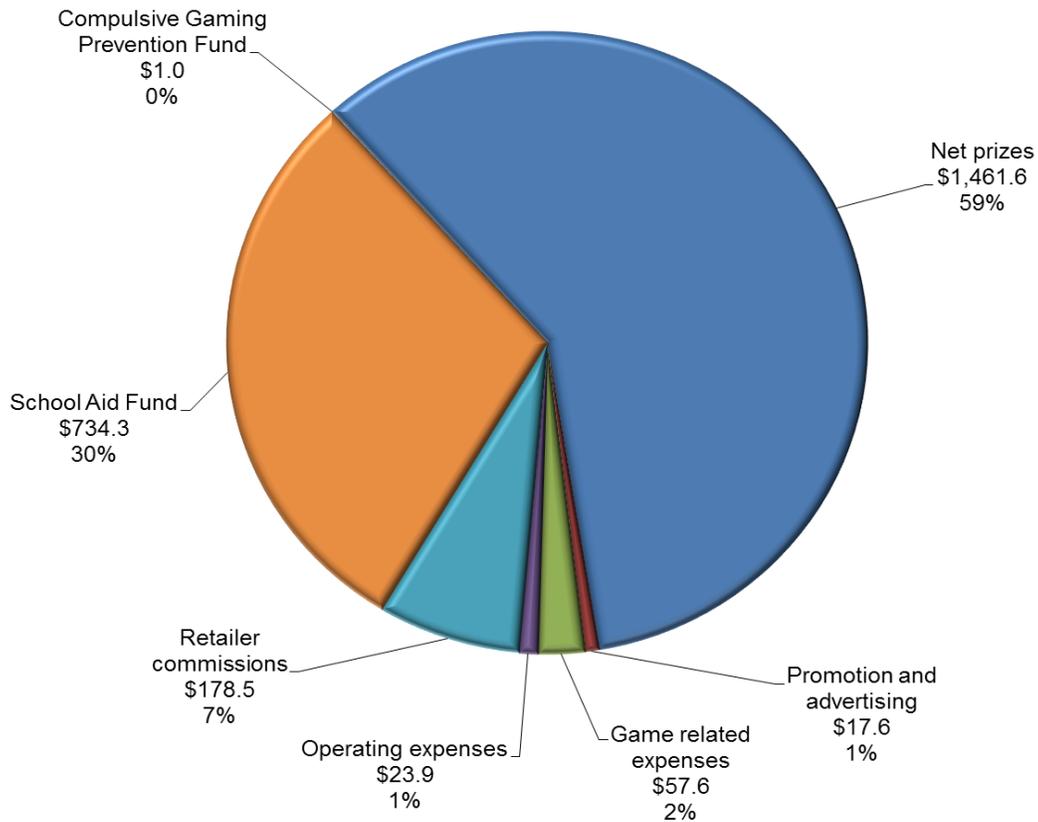


Source: Prepared by the Office of the Auditor General, using data from the Bureau of State Lottery Comprehensive Annual Financial Report for the fiscal year ended September 30, 2013.

* See glossary at end of report for definition.

The Bureau generated ticket sales of \$2.5 billion and transferred \$734.3 million to the State's School Aid Fund* for fiscal year 2012-13. The following chart shows the Bureau's expenses and disbursements for fiscal year 2012-13:

Fiscal Year 2012-13 Expenses and Disbursements (in millions)



Source: Prepared by the Office of the Auditor General, using data from the Bureau of State Lottery Comprehensive Annual Financial Report for the fiscal year ended September 30, 2013.

As of May 10, 2014, the Bureau had 174 full-time equated employees.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Bureau of State Lottery, Department of Treasury, had the following objectives:

1. To assess the effectiveness* of the Bureau's efforts to ensure the integrity of lottery games and operations.
2. To assess the effectiveness of the Bureau's efforts to withhold income taxes, outstanding State liabilities, and support arrearages from lottery winners.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of State Lottery, excluding the Charitable Gaming Division. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2011 through December 31, 2013.

Audit Methodology

We conducted a preliminary survey of the Bureau's operations to formulate a basis for defining the audit objectives and scope. Our preliminary survey included:

- Discussions with key staff to obtain an understanding of their functions.
- A review of applicable laws, rules, policies, and procedures.
- A comparison of Michigan's lottery statistics with those of other states.

* See glossary at end of report for definition.

- Observation of claim processing and vendor software quality assurance testing.
- Testing of documentation for retailer licensing and claim processing.

To accomplish our first objective, we:

- Summarized prize amounts and number of wins to identify potential repurchasing of winning lottery tickets.
- Matched lottery winners to Bureau and contractor employees and their addresses to determine whether employees or immediate family members of the employees' household had claimed lottery prizes.
- Tested the Bureau's licensing process for a random selection of 10 newly licensed retailers.
- Verified that the Bureau conducted criminal history background checks on all retail owners licensed between October 1, 2011 and February 14, 2014.
- Tested the Bureau's claim process for a random selection of 20 lottery prize claims.
- Judgmentally selected and reviewed 3 of the 13 drawing ball certification reports for the Daily 3 and Daily 4 games and reviewed the random number generator certification for the Daily 3, Daily 4, Classic Lotto 47, Fantasy 5, and Keno games.
- Reviewed the security over how the Bureau transferred confidential data to other entities.
- Reviewed a quarterly sales performance report to determine if retailers were achieving established benchmarks and if the Bureau was monitoring sales activity.
- Reviewed the Bureau's retailer complaint process.

To accomplish our second objective, we:

- Reviewed the Bureau's State income tax and debt withholding processes.
- Reviewed State income tax withholdings on lottery prizes for compliance with the Bureau's requirements.
- Calculated the potential State income tax withholdings on lottery prizes between \$601 and \$5,000.
- Matched winners of lottery prizes between \$601 and \$5,000 with State income tax records to identify lottery prize winners who had not filed State income tax returns, validated a sample of the potential nonfilers with the Department of Treasury, and calculated the potential impact on State income tax revenue.
- Matched winners of lottery prizes exceeding \$1,000 with the Department of Treasury's debt files to verify compliance with debt withholding requirements.
- Matched winners of lottery prizes between \$601 and \$999 with the Department of Treasury's debt files and calculated the potential additional debt withholdings.
- Reviewed the Bureau's compliance with requirements to notify the Department of Human Services of lottery winners of prizes exceeding \$1,000.

We based our conclusions on our audit efforts described in the preceding paragraphs and the resulting reportable conditions* noted in the comments, findings, recommendations, and agency preliminary responses section. The reportable conditions are less severe than a material condition* but represent deficiencies in internal control* or an opportunity for improvement.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve the operations of State government. Consequently, we prepare our performance audit reports on an exception basis.

* See glossary at end of report for definition.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 3 findings and 3 corresponding recommendations. The Bureau's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Bureau to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Bureau of State Lottery, Department of Treasury (27-410-05), in February 2006. The Bureau complied with all 5 of the prior audit recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO ENSURE INTEGRITY OF LOTTERY GAMES AND OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Bureau of State Lottery's efforts to ensure the integrity of lottery games and operations.

Audit Conclusion: **We concluded that the Bureau's efforts to ensure the integrity of lottery games and operations were effective.**

Factors leading to this conclusion included the:

- Reportable conditions related to investigations of lottery retail owners and confidential data security.
- Bureau's mission to operate all games and Bureau functions with nothing less than total integrity.
- Bureau's adequate monitoring of its retailer sales performance.
- Compliance of Bureau employees, contract employees, and immediate family members of the employees' households with the prohibition to claim lottery prizes.
- Compliance of the Bureau's lottery retailer licensing process, lottery prize claim process, and lottery retailer complaint process with selected laws, regulations, and procedures.
- Bureau's completion of criminal history background checks on all retail owners licensed between October 1, 2011 and February 14, 2014.
- Bureau's verification of the randomness of the drawing software and drawing balls through third party certifications.

FINDING

1. Investigations of Lottery Retail Owners

The Bureau did not sufficiently identify and investigate lottery retail owners who repurchased winning lottery tickets, likely at a discount. As a result, the Bureau did not investigate 33 lottery retail owners who potentially repurchased winning lottery tickets from original purchasers during calendar years 2012 and 2013.

The Bureau informed us that some lottery winners resell their winning tickets to avoid having their lottery prize winnings withheld for outstanding debts collectible by the State; having their winnings reported to the Department of Human Services (DHS); and having their winnings reported to the Internal Revenue Service and the Department of Treasury for income tax reporting purposes. To identify potential repurchasing of winning lottery tickets by retail owners, we analyzed their lottery prize winnings that individually exceeded \$600 more than 20 times in one year and accumulated prizes of more than \$20,000 in one year (20/20 winners) and summarized the data as follows:

Summary of 20/20 Winners Who Were Lottery Retail Owners*

	Calendar Year		Total
	2012	2013	
Total number of 20/20 winners	15	22	37
Total number of wins	414	796	1,210
Average number of wins	28	36	33
Total lottery prizes	\$1.35 million	\$2.24 million	\$3.59 million
Average prize amount	\$3,260	\$2,811	\$2,965

* See Exhibit 1, presented as supplemental information, for the details of the 20/20 winners who were lottery retail owners.

We analyzed the data of the 20/20 winners who were retail owners and compared the winners with Bureau investigation records and State income tax records. We noted:

- a. The Bureau had not identified and investigated 33 of the 37 retail owners who were 20/20 winners. *Michigan Administrative Code* R 432.6(1)(c) and R 432.6(1)(k) prohibit retail owners from repurchasing lottery tickets from an original purchaser. The 33 retail owners collectively claimed total lottery prize winnings of \$2.8 million for 950 winning tickets during calendar years 2012 and 2013.

The Bureau had, however, investigated and disciplined 13 retail owners for repurchasing winning lottery tickets during our audit period, including 4 of the 37 20/20 winners. The Bureau indicated that it investigated the most extreme cases first and identified and investigated other cases as time was available.

- b. Although the Bureau reported the retail owners' winnings to the Department of Treasury for income tax reporting purposes, 6 (40%) of the 15 20/20 winners for calendar year 2012, who were licensed lottery retail owners, did not report \$509,211 of their lottery prize winnings on their State income tax returns for calendar year 2012. Section 206.30(6) of the *Michigan Compiled Laws* indicates that lottery prize winnings must not be excluded from a taxpayer's taxable income. We estimated that the State is at risk of losing income tax revenue of up to \$22,027 related to these lottery prize winnings.

In a separate correspondence, we notified the State Treasurer of this issue and provided the necessary information to facilitate the appropriate tax enforcement activities.

RECOMMENDATION

We recommend that the Bureau sufficiently identify and investigate lottery retail owners who repurchased winning lottery tickets, likely at a discount.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with the recommendation and indicated that potential discounting is an issue for virtually all state lotteries.

The Bureau indicated that there are approximately 11,000 licensed lottery retailers in Michigan; that many of these retailers, as well as their family members and employees, frequently play the lottery; and that these sales are a valued contribution to the School Aid Fund. The Bureau agreed that a high number of claims may suggest discounting, but indicated that the Bureau cannot automatically assume a violation of State law or the retailer license agreement. The Bureau indicated that the 13 retailers it disciplined for discounting during the audit period were cases in which the Bureau believed that its investigations clearly established discounting had occurred.

To enhance its investigations and crackdown on discounting, the Bureau indicated that it will implement the following measures:

- The Bureau will direct its vendor to report any retailers claiming more than 20 tickets worth at least \$20,000 during a calendar year (20/20 Report) and will automatically investigate any retailer appearing on that report.
- To assist with tracking and long-term investigation of potential discounting, the Bureau will establish a database of retailers appearing on 20/20 Reports.
- The Bureau will conduct undercover investigations of retail locations suspected of discounting.
- Where investigation confirms discounting, the Bureau will place the retailer on a hold list for a set period of time and will direct lottery claim centers to hold payment of new claims filed by that retailer pending completion of a new investigation.
- The Bureau will review and enhance penalties for retailer discounting.
- To increase awareness, the Bureau will send notification to retailers reminding them that discounting is prohibited, advising them of enhanced penalties, and advising them of increased investigations.
- The Bureau will revise its claim form so that a claimant is required to state how he or she obtained the winning ticket.
- The Bureau will prepare a year-end report for the Department of Treasury and DHS listing 20/20 retailers for the prior calendar year.

Regarding claimants who fail to report lottery winnings on their tax returns, the Bureau indicated that it reports payment of all lottery winnings exceeding \$600 to the Department of Treasury and the Internal Revenue Service as required by law. The Bureau indicated that identifying and pursuing the collection of unpaid taxes on lottery prize winnings would be the responsibility of those agencies.

FINDING

2. Confidential Data Security

The Bureau did not encrypt lottery winners' confidential data transferred to the Department of Treasury for income tax reporting purposes. As a result, the Bureau did not minimize the likelihood that confidential taxpayer data could have been inadvertently disclosed or accessed.

Department of Technology, Management, and Budget (DTMB) Technical Standard 1340.00.07 requires the use of encryption* when protected information, including personally identifying information* such as social security numbers, is transmitted or stored electronically.

The Bureau provided the data, including personally identifying information, of 8,345 lottery winners to the Department of Treasury for income tax reporting purposes for calendar years 2012 and 2013. Although the Bureau followed the Department of Treasury's instructions for providing State income tax data, the Bureau indicated that it did not encrypt the data in accordance with DTMB's electronic data encryption policy. The Bureau also indicated that because the Department of Treasury's instructions did not provide a mechanism for encryption, the Bureau was unaware that the Department of Treasury could accept encrypted tax reporting data.

RECOMMENDATION

We recommend that the Bureau encrypt lottery winners' confidential data transferred to the Department of Treasury for income tax reporting purposes.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with the recommendation. The Bureau indicated that it was following the instructions issued by the Department of Treasury on Form 447, which did not include any information about a mechanism for accepting encrypted disks. The Bureau indicated that it has already researched the issue and updated its procedure and will now send its disks in an encrypted format to the Department of Treasury.

* See glossary at end of report for definition.

EFFECTIVENESS OF EFFORTS TO WITHHOLD TAXES, LIABILITIES, AND SUPPORT

COMMENT

Audit Objective: To assess the effectiveness of the Bureau's efforts to withhold income taxes, outstanding State liabilities, and support arrearages from lottery winners.

Audit Conclusion: **We concluded that the Bureau's efforts to withhold income taxes, outstanding State liabilities, and support arrearages from lottery winners were effective.**

Factors leading to this conclusion included the:

- Reportable condition related to the tax and debt withholding thresholds for lottery prize winning payouts.
- Bureau's compliance with current withholding requirements for State income taxes and debts collectible by the State.
- Bureau's compliance with winner notification requirements to DHS.
- Opportunity for an additional \$4.6 million of State income taxes that could have been withheld.
- Risk of the State losing \$886,000 in State income tax revenue.
- Opportunity for an additional \$177,309 of outstanding debts collectible by the State that could have been withheld.

FINDING

3. Tax and Debt Withholding Thresholds

The Bureau had not analyzed the impact of lowering the thresholds for withholding State income taxes and outstanding debts from lottery prize winning payouts. If the Bureau had lowered the threshold to \$600, it could have withheld up to an additional \$4.8 million from lottery winners for State income taxes and outstanding

debts collectible by the State. Also, we estimated that the State may be at risk of losing State income tax revenue of \$886,000 related to lottery prize winnings for calendar year 2012.

Section 432.15(2)(b) of the *Michigan Compiled Laws* requires the Commissioner of State Lottery to make a continuous study and investigation of the lottery to formulate recommendations for changes to the Lottery Act and rules. The Lottery Act (Sections 432.1 - 432.47 of the *Michigan Compiled Laws*) does not establish a threshold amount for withholding State income taxes that would prohibit the Bureau from lowering the withholding threshold to \$600. The Lottery Act does establish the threshold for outstanding debts collectible by the State at \$1,000; therefore, a legislative amendment may be required to lower this threshold.

Bureau procedure 30.ADA.4.100.5 requires that lottery prize winnings exceeding \$600 must be redeemed at an authorized lottery or bank claim center or at the lottery central claim center, where the Bureau captures the winner's name and other personally identifying information and withholds applicable federal and State income taxes and outstanding debts collectible by the State based on current withholding thresholds. However, the procedure requires lottery employees to withhold federal and State income taxes only on lottery prize winnings exceeding the federal income tax withholding threshold of \$5,000 and Section 432.32 of the *Michigan Compiled Laws* requires the Bureau to withhold outstanding debts collectible by the State only on lottery prize winnings of \$1,000 or more.

We performed the following analyses of lottery prize winners:

- a. We compared the 26,941 lottery winners who had lottery prize winnings individually greater than \$600 and less than \$5,001 with the Department of Treasury's State income tax electronic data for calendar year 2012 and with its debt files for calendar year 2013:
 - (1) If the threshold for withholding State income taxes had been lowered from \$5,000 to \$600, the Bureau could have withheld up to an additional \$4.6 million in State income taxes from the \$106.6 million of lottery prize winnings for calendar year 2012.

- (2) Because 4,266 (16%) winners potentially did not file a State income tax return for calendar year 2012, totaling unreported lottery prize winnings of \$20.5 million, we estimate that the State is at risk of losing income tax revenue of \$886,000. This includes the 22 20/20 winners, as reported in part b. of this finding, who did not file a State income tax return.
- (3) If the threshold for withholding outstanding debts had been lowered from \$1,000 to \$600, the Bureau could have withheld up to an additional \$177,309 for outstanding debt that is collectible by the State and owed to a third party from lottery prize winnings for calendar year 2013.
- b. We summarized the lottery prize winnings of individuals each winning more than 20 times in one year and each having accumulated prizes of more than \$20,000 in one year (20/20 winners) to analyze potential repurchasing of winning lottery tickets as follows:

Summary of 20/20 Winners List*

	Calendar Year		Total
	2012	2013	
Total number of 20/20 winners	68	88	156
Total number of wins	2,541	3,719	6,260
Average number of wins	37	42	40
Total lottery prizes	\$7.9 million	\$11.4 million	\$19.4 million
Average prize amount	\$3,124	\$3,076	\$3,096

* This summary includes the 20/20 winners who were lottery retail owners (Exhibit 1) and the 20/20 winners who were not lottery retail owners (Exhibit 2). Both exhibits are presented as supplemental information.

We analyzed the 20/20 winners' data and compared the winners to State income tax records for calendar year 2012. Of the 68 20/20 winners, we determined that 46 (68%) winners either did not file a State income tax return (22 winners) or did not include all of their lottery prize winnings on their State income tax return (24 winners), totaling unreported lottery prize winnings of \$5.4 million. We estimated that the State is at risk of losing income tax revenue of \$221,927 related to these lottery prize winnings. This includes the 6 licensed lottery retail owners identified in Finding 1, part b.

The Bureau informed us that some lottery winners resell their winning tickets to avoid having their lottery prize winnings withheld for outstanding debts collectible by the State; having their winnings reported to DHS; and having their winnings reported to the Internal Revenue Service and the Department of Treasury for income tax reporting purposes. Lowering the thresholds will help to ensure that the State does not lose income tax revenue from individuals who repurchase winning lottery tickets and do not file or include their lottery prize winnings on their State income tax return.

Because the Bureau does not receive information regarding lottery winners' personal tax returns, it was unaware that these lottery winners had not filed State income tax returns or had not included all of their lottery prize winnings on their State income tax returns and, therefore, was unaware of the need to analyze the current withholding thresholds.

In a separate correspondence, we notified the State Treasurer of this finding and provided the necessary information to facilitate the appropriate tax enforcement activities.

RECOMMENDATION

We recommend that the Bureau analyze the impact of lowering the thresholds for withholding State income taxes and outstanding debts from lottery prize winning payouts.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees with the essence of the recommendation as a potential opportunity for improvement. The Bureau indicated that it reports payment of all prizes over \$600 to the Department of Treasury and the Internal Revenue Service as required by law. The Bureau indicated that identifying and pursuing the collection of unpaid taxes on lottery prize winnings would be the responsibility of those agencies. The Bureau indicated that whether federal and State law allows the Bureau to withhold federal or State taxes from prizes under \$5,000 and whether State law allows the Bureau to withhold State debts from prizes under \$1,000 are legal questions that the Bureau will forward to the Department of Attorney General for analysis. The Bureau indicated that, if allowable, it would need to conduct further research on the potential impact of sales resulting from withholding at lower thresholds and the overall benefit or loss to the State.

SUPPLEMENTAL INFORMATION

BUREAU OF STATE LOTTERY
Department of Treasury

Summary of 20/20 Winners Who Were Lottery Retail Owners

Calendar Year 2012				Calendar Year 2013			
	Total Prize Amounts	Number of Prizes	Average Prize Amount		Total Prize Amounts	Number of Prizes	Average Prize Amount
1	\$ 200,000	40	\$ 5,000	1	\$ 346,312	107	\$ 3,237
2	166,974	43	\$ 3,883	2	211,620	47	\$ 4,503
3	158,479	29	\$ 5,465	3	191,372	86	\$ 2,225
4	113,020	25	\$ 4,521	4	145,795	45	\$ 3,240
5	106,040	25	\$ 4,242	5	139,940	40	\$ 3,499
6	92,810	24	\$ 3,867	6	112,391	32	\$ 3,512
7	89,580	25	\$ 3,583	7	103,246	57	\$ 1,811
8	80,577	22	\$ 3,663	8	98,663	23	\$ 4,290
9	76,736	26	\$ 2,951	9	98,052	27	\$ 3,632
10	67,078	22	\$ 3,049	10	90,662	28	\$ 3,238
11	64,862	23	\$ 2,820	11	90,489	26	\$ 3,480
12	61,338	45	\$ 1,363	12	87,248	21	\$ 4,155
13	27,754	20	\$ 1,388	13	70,724	23	\$ 3,075
14	23,504	25	\$ 940	14	67,701	33	\$ 2,052
15	20,720	20	\$ 1,036	15	67,363	20	\$ 3,368
	<u>\$ 1,349,472</u>	<u>414</u>	<u>\$ 3,260</u>	16	63,832	21	\$ 3,040
				17	59,489	22	\$ 2,704
				18	54,852	20	\$ 2,743
				19	51,691	32	\$ 1,615
				20	34,936	26	\$ 1,344
				21	28,793	27	\$ 1,066
				22	22,480	33	\$ 681
					<u>\$ 2,237,651</u>	<u>796</u>	<u>\$ 2,811</u>
Total for calendar years 2012 and 2013				37	<u>\$ 3,587,123</u>	<u>\$ 1,210</u>	\$ 2,965

Source: The Office of the Auditor General prepared this exhibit using data obtained from the Bureau.

BUREAU OF STATE LOTTERY
Department of Treasury

Summary of 20/20 Winners Who Were Not Lottery Retail Owners

Calendar Year 2012				Calendar Year 2013			
	Total	Number of	Average		Total	Number of	Average
	Prize Amounts	Prizes	Prize Amount		Prize Amounts	Prizes	Prize Amount
1	\$ 774,288	238	\$ 3,253	1	\$ 1,096,885	299	\$ 3,669
2	595,757	185	\$ 3,220	2	754,085	301	\$ 2,505
3	472,812	201	\$ 2,352	3	420,183	138	\$ 3,045
4	265,724	59	\$ 4,504	4	351,580	114	\$ 3,084
5	195,652	56	\$ 3,494	5	339,680	99	\$ 3,431
6	194,500	92	\$ 2,114	6	322,597	102	\$ 3,163
7	168,996	52	\$ 3,250	7	284,864	102	\$ 2,793
8	161,630	46	\$ 3,514	8	231,800	68	\$ 3,409
9	140,000	28	\$ 5,000	9	214,754	59	\$ 3,640
10	128,228	29	\$ 4,422	10	202,708	41	\$ 4,944
11	127,432	44	\$ 2,896	11	193,627	65	\$ 2,979
12	125,072	33	\$ 3,790	12	192,882	50	\$ 3,858
13	118,624	38	\$ 3,122	13	188,394	53	\$ 3,555
14	117,837	34	\$ 3,466	14	157,941	52	\$ 3,037
15	115,979	42	\$ 2,761	15	143,228	46	\$ 3,114
16	115,487	33	\$ 3,500	16	134,482	41	\$ 3,280
17	115,000	23	\$ 5,000	17	133,716	29	\$ 4,611
18	113,298	36	\$ 3,147	18	131,111	42	\$ 3,122
19	113,093	20	\$ 5,655	19	130,872	41	\$ 3,192
20	108,916	30	\$ 3,631	20	123,206	43	\$ 2,865
21	104,032	24	\$ 4,335	21	121,227	32	\$ 3,788
22	103,373	43	\$ 2,404	22	113,665	35	\$ 3,248
23	101,000	21	\$ 4,810	23	110,000	22	\$ 5,000
24	100,000	20	\$ 5,000	24	109,385	35	\$ 3,125
25	100,000	20	\$ 5,000	25	104,910	28	\$ 3,747
26	97,812	21	\$ 4,658	26	104,510	35	\$ 2,986
27	97,708	20	\$ 4,885	27	100,916	33	\$ 3,058
28	96,099	30	\$ 3,203	28	100,668	26	\$ 3,872
29	95,831	25	\$ 3,833	29	100,000	20	\$ 5,000
30	92,496	26	\$ 3,558	30	99,104	35	\$ 2,832
31	89,026	34	\$ 2,618	31	97,976	30	\$ 3,266
32	84,757	28	\$ 3,027	32	97,332	32	\$ 3,042
33	83,952	29	\$ 2,895	33	96,308	28	\$ 3,440
34	81,908	38	\$ 2,155	34	89,968	23	\$ 3,912
35	80,206	22	\$ 3,646	35	85,250	25	\$ 3,410
36	80,102	25	\$ 3,204	36	84,032	20	\$ 4,202
37	78,823	21	\$ 3,753	37	83,804	23	\$ 3,644
38	78,746	24	\$ 3,281	38	83,064	22	\$ 3,776
39	75,668	20	\$ 3,783	39	80,625	25	\$ 3,225
40	70,800	22	\$ 3,218	40	80,106	23	\$ 3,483
41	63,851	20	\$ 3,193	41	79,268	21	\$ 3,775
42	61,319	22	\$ 2,787	42	76,352	20	\$ 3,818
43	60,903	20	\$ 3,045	43	75,334	27	\$ 2,790
44	52,854	20	\$ 2,643	44	74,492	22	\$ 3,386
45	52,704	20	\$ 2,635	45	73,612	23	\$ 3,201
46	49,500	45	\$ 1,100	46	72,768	20	\$ 3,638
47	32,008	21	\$ 1,524	47	71,738	22	\$ 3,261

This exhibit continued on next page.

BUREAU OF STATE LOTTERY
Department of Treasury

Summary of 20/20 Winners Who Were Not Lottery Retail Owners
Continued

Calendar Year 2012				Calendar Year 2013			
	Total	Number of	Average		Total	Number of	Average
	Prize Amounts	Prizes	Prize Amount		Prize Amounts	Prizes	Prize Amount
48	30,491	20	\$ 1,525	48	68,864	22	\$ 3,130
49	27,915	25	\$ 1,117	49	67,010	21	\$ 3,191
50	27,177	21	\$ 1,294	50	64,832	23	\$ 2,819
51	24,141	20	\$ 1,207	51	64,312	22	\$ 2,923
52	22,449	20	\$ 1,122	52	64,300	20	\$ 3,215
53	21,405	21	\$ 1,019	53	60,058	21	\$ 2,860
	<u>\$ 6,587,381</u>	<u>2,127</u>	<u>\$ 3,097</u>	54	59,950	20	\$ 2,998
				55	59,016	20	\$ 2,951
				56	58,884	20	\$ 2,944
				57	57,488	21	\$ 2,738
				58	55,932	20	\$ 2,797
				59	55,518	20	\$ 2,776
				60	48,958	20	\$ 2,448
				61	43,469	22	\$ 1,976
				62	37,860	36	\$ 1,052
				63	35,186	21	\$ 1,676
				64	33,756	27	\$ 1,250
				65	30,910	30	\$ 1,030
				66	22,339	25	\$ 894
					<u>\$ 9,203,651</u>	<u>2,923</u>	<u>\$ 3,149</u>
Total for calendar years 2012 and 2013				119	<u>\$ 15,791,032</u>	<u>\$ 5,050</u>	\$ 3,127

Source: The Office of the Auditor General prepared this exhibit using data obtained from the Bureau.

GLOSSARY

Glossary of Abbreviations and Terms

DHS	Department of Human Services.
draw games	Lottery games with drawings conducted to select winning numbers daily or more frequently.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
encryption	The process of taking an unencrypted message (plaintext), applying a mathematical function to it (encryption algorithm with a key), and producing an encrypted message (ciphertext).
instant ticket games	Lottery games played by scratching off a latex covering on a ticket to reveal prize symbols.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
lottery	The lottery created pursuant to Act 239, P.A. 1972, and operated exclusively by or under the exclusive control of the Bureau of State Lottery.
lottery central	The lottery headquarters located in Lansing, Michigan.

material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
personally identifying information	Any information that permits the identity of an individual to be directly or indirectly inferred.
pull tab games	Lottery games played by pulling a perforated tab on a ticket to reveal prize symbols.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

retailer

A person who has been licensed to sell lottery tickets. In accordance with Section 432.23(13)(b) of the *Michigan Compiled Laws*, a "person" is an individual, a corporation, a company, a State agency, etc.

School Aid Fund

The fund that furnishes State school aid to school districts and provides financing for the Public School Employees' Retirement System.

